



NABISCO
BRANDS

ANNUAL REPORT 1966



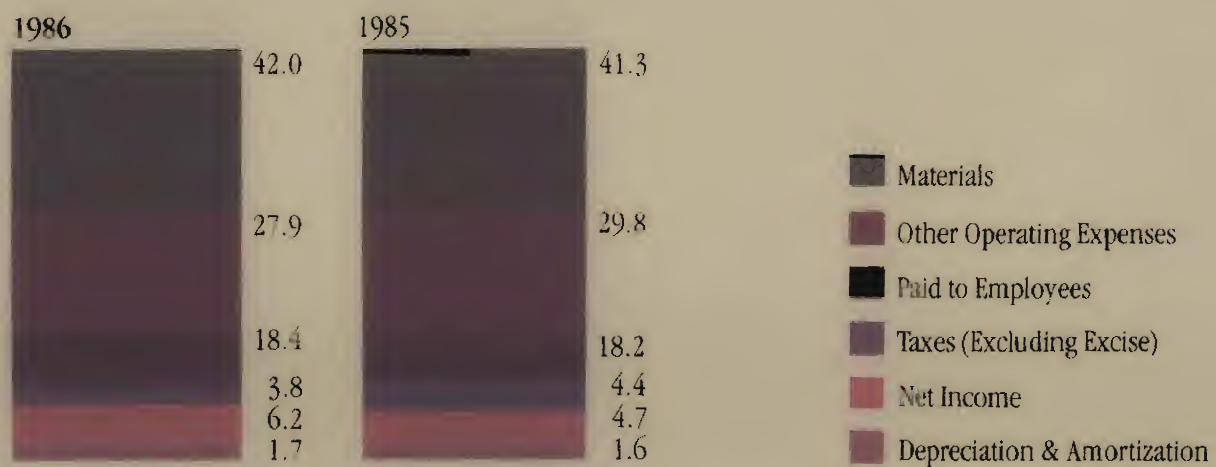
A Fourth Dimension:
Raisin Wheat joins the Nabisco
family of cereals.



*Oreo Double Stuf: more inside
for the people who've made Oreo
Canada's favourite cookie.*

	<u>1986</u>	<u>1985</u>	<u>1984</u>	<u>1983</u>	<u>1982</u>
FINANCIAL HIGHLIGHTS					
(in thousands of dollars)					
Net Sales	\$941 655	\$961 332	\$938 487	\$907 213	\$786 043
Net Income	58 510	45 585	44 560	42 800	37 950
Working Capital	247 311	194 413	169 929	176 623	200 183
Capital Investment	19 548	21 894	21 146	24 823	20 606
Shareholders' Equity	350 136	307 626	278 041	279 481	276 744
Total Assets	\$658 802	\$513 290	\$483 059	\$481 326	\$442 429
Total Debt	\$ 48 419	\$ 52 622	\$ 56 092	\$ 59 469	\$ 60 051
PER CAPITA SALES	\$ 37.63	\$ 38.28	\$ 37.38	\$ 36.33	\$ 32.35

ANALYSIS OF REVENUE DOLLAR



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COMPANY PROFILE: Nabisco Brands Ltd is one of Canada's foremost food and beverage manufacturers. The Company's origins date back to 1853 with the founding of Christie, Brown and Company, a maker of baked goods. Today, many of the Company's products are market leaders and its brands have been household words for generations, based on a tradition of quality that began in Canada more than 133 years ago.

The shares of Nabisco Brands Ltd are listed on the Toronto and Montreal Stock Exchanges.

ANNUAL MEETING: The Annual Meeting of Shareholders will be held at the Metro Toronto Convention Centre, Room 201, 255 Front Street West, Toronto, Ontario, at 11:00 A.M. on Friday, May 8, 1987.

Throughout this Report, trade names, trade marks, or brand names owned by or associated with Nabisco Brands Ltd and its subsidiaries are shown in *italics*.

For additional copies of this Report, write to:

Corporate Affairs
Nabisco Brands Ltd
1 Dundas Street West
Toronto, Ontario
Canada M5G 2A9

On peut se procurer l'édition française de ce rapport en écrivant au:

Affaires générales
Nabisco Brands Ltée
1 Dundas Street West
Toronto, Ontario
Canada M5G 2A9



The Pil Water brand rice is an integral part of Nabors's merchandising strategy.

Executive Report



J.R. MacDonald
Vice Chairman &
Chief Executive Officer

R.E. Glover
President &
Chief Operating Officer

M.F.C. Emmett
Chairman of the Board

In 1986, the net income of Nabisco Brands Ltd rose to \$58.5 million from \$45.6 million the previous year. Excluding extraordinary gains, net income declined to \$32.5 million in 1986 from \$46.5 million in 1985. Net sales in 1986 were \$941.7 million compared with \$961.3 million the previous year.

The Food and Beverage Industry did not experience growth during 1986 and competition was vigorous. The imposition of the 5 per cent surtax on federal income tax and the elimination of the 3 per cent inventory tax allowance made the situation worse.

During 1986 the decision was made to reinvest heavily in those areas where Nabisco Brands Ltd has a strong position. The objective is to capitalize on your Company's primary strengths by marketing the highest quality products, produced in the most efficient plants in Canada.

Advertising, consumer promotion and merchandising are essential ingredients for such a strategy to be effective. Expenditures increased to \$53 million in 1986 from \$46 million during the prior year. More importantly, the increase in the last half of the year was 44 per cent. This strategy will ensure healthy market shares in all areas of primary emphasis and it also provides a basis for long term profitability even though there are some negative effects on short term earnings.

Already the strategy of increased marketing support is paying dividends. *Oreo* cookies increased volume in the same comparative period by 43 per cent. The new cereal product, *Raisin Wheats*, was successfully introduced throughout English speaking Canada and, more recently, has been expanded into Quebec. This strategy is working and will continue during 1987.

Your Company also initiated a restructuring program, involving one major acquisition and several divestitures, to ensure that Nabisco Brands Ltd is positioned to capitalize on primary strengths as the future unfolds.

During 1986 the following transactions took place:

On July 2, 1986, Nabisco Brands Ltd sold the fixed assets, inventories and trademarks of the Canadian yeast operations of the Fleischmann Division to Burns Philp & Company Ltd. of Australia.

On December 31, 1986, your Company completed the sale of McGuinness Distillers Limited and Calona Wines Limited to Heublein, Inc. of Farmington, Connecticut.

In the latter part of 1986, the Company entered into an agreement to sell The Hervin Company, its U.S. based pet food operation in Tualatin, Oregon, to Alpo Petfoods of Allentown, Pennsylvania. To simplify tax

planning, your Company sold the Hervin trade marks to Nabisco Brands Inc. prior to this agreement. Subsequent to the fiscal year-end, Nabisco Brands Ltd completed the sale of its canned pet food operations, including the *Dr. Ballard's* and *Miss Mew* brands, to Nestlé Enterprises Limited.



Executive Report

In November, Nabisco Brands Ltd acquired Canadian Cannery Limited from the majority shareholder, RJR Nabisco, Inc. Canadian Cannery, with sales last year of approximately \$200,000,000, expands the portfolio of branded consumer food products and brings to your Company a century-old tradition of quality and a catalogue of more than 200 products, including the venerable *Del Monte* and *Aylmer* brands.

In summary, your management is confident that the correct measures have been implemented to restore the growth in profitability of Nabisco Brands Ltd. Resources will be concentrated on strategic business units where marketing support will be increased significantly for the second consecutive year.

The year 1986 was not typical and we are grateful to the dedicated efforts of all our employees, without whose support it would not have been possible to reposition the Company so effectively.



M.F.C. Emmett
Chairman of the Board

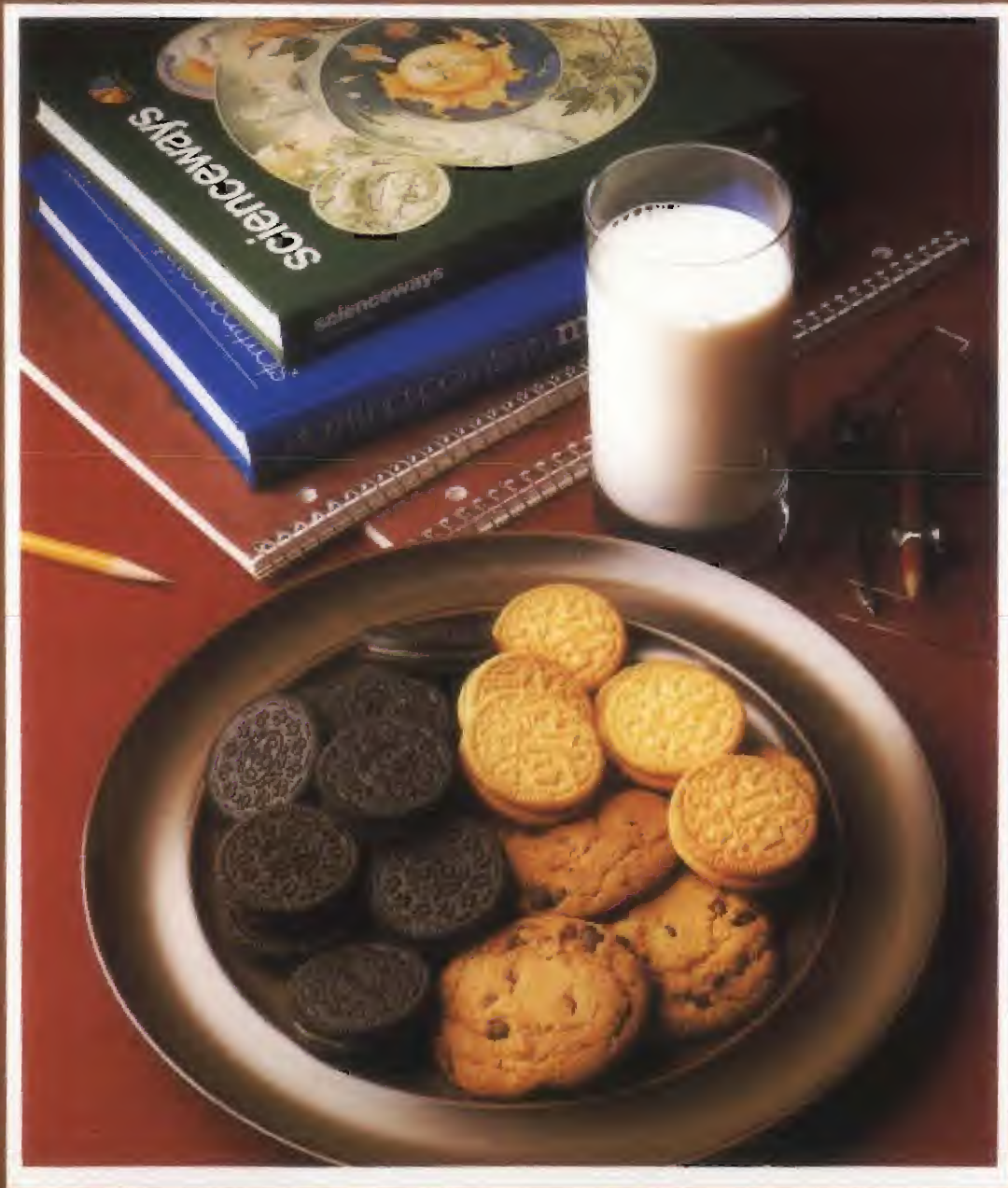


J.R. MacDonald
Vice Chairman &
Chief Executive Officer



R.E. Glover
President &
Chief Operating Officer





The merger of Nabisco's two biscuit divisions in 1986 brought together the families of *Christie* Cookies, *Christie* Crackers, and *Christie* Snacks & Cones with those of the former Associated Biscuits' *Peek Freans*, *Dad's*, *David*, and *Harnois*.

The high quality of these brand families hasn't changed. Nor has their distinctiveness. What has changed is that they have a stronger representation in the marketplace because they all come under the sales, service and distribution system of Christie Brown & Co., with its unique direct-to-store delivery system.

Among the highlights:

Oreo cookies, already number one in Canada, attained a record high market share due in part to two successful new product launches — *Oreo Double Stuf* and *Oreo Mint Creme*. A multi-media program already has made famous the slogans "Even Moreo" and "Flavour of the Menthe".

And now there are four! A new *Newtons* variety, *Raspberry Newtons*, joined *Fig Newtons*, *Date Newtons* and *Apple Newtons* with an acclaimed summer debut. The four varieties, all made with real fruit, appeal to all family tastes.

Peek Freans, a top-of-the-line premium biscuit and long a special favourite with customers in the United States as well as in Canada, returned to television with a series of messages designed to encourage consumers to regard this top-of-the-line premium biscuit as a treat for more than just special occasions. The catchy, and apt, theme: "What are you saving your *Peek Freans* for?"





New from *Peek Freans*, Orange Chocolate Tea Biscuits enrobed a subtle orange flavour biscuit with pure dark chocolate and won a high degree of positive purchase interest from consumers. And for those seeking variety, *Celebration* offered a deluxe assortment of *Peek Freans* biscuits suitable for

special occasions and gift-giving, packaged in a manner which communicates the *Peek Freans* image of superior quality and sophistication.

Dad's maintained its position as Canada's most popular oatmeal cookie with aggressive in-store merchandising and pricing strategy.

David cookies, a Quebec tradition for more than 75 years with favourites such as Maple Leaf, Strawberry Tarts, Princess, and Jelly Mallows, re introduced its Chunks o'Chocolate cookies with strong media advertising support.





In the cracker category, consumer appetite for *Ritz*, the world's favourite, was whetted by new television advertising. *Ritz* remains the standard of excellence to which all other crackers aspire.

To appeal to the growing segment of the public concerned about salt intake, new Less Salt *Ritz* was formulated to provide the same light, flaky, melt-in-your-mouth texture as regular *Ritz*, but with only half the salt.

Premium Plus strengthened its position as the number one brand in the soda cracker market during 1986. Marketing support programs in 1987 will ensure that *Premium Plus* continues to be significantly preferred over its competition.



With the introduction of *Pizza Thins*, Christie strengthened its leadership of the snacking cracker market and is the only brand that offers a flavour for every snacking occasion.

One of the success stories of the year has been the new *Less Salt Triscuit*, which complements *Triscuit* and which, like *Less Salt Ritz*, appeals to the sodium-sensitive consumer.

Christie's *Wheat Thins* similarly found a popular new companion in *Less Salt Wheat Thins*, becoming part of the "Fantastic Four" *Wheat Thins* favourites. The other new flavours, providing a variety of taste choice and all offering the goodness of wheat, are *Honey Wheat Thins*, with honey baked right in, and *Nutty Wheat Thins*, with ground almonds sprinkled on top.

Better Cheddars became a significant player in 1986 with its ultra-thin crispness made from real cheese. This success coincided with the additions last year to the *Better Snack Thins* line of *Better Swiss*, *Better Nacho* and *Better Blue*.

Last year's integration of Associated Biscuits of Canada Ltd. into Christie Brown & Co. has accomplished its objectives of improving customer service throughout Christie Brown & Co., as well as securing economies for Nabisco.





These two need no introduction! *Del Monte*, the label that gives the customer "something extra"! And *Aylmer*, the "value line"!

With the acquisition in November, 1986 of Canadian Cannery Limited, these two labels joined the Nabisco family. Along with Canadian Cannery's other quality branded products — including *Hawaiian Punch*, *Coronation*, and *Chun King* — they make a great fit with Nabisco's extensive line of grocery products.

That fit was made even more snug on January 1, 1987 with the integration of Canadian Cannery with the Nabisco Foods Division to form the new Grocery Division.

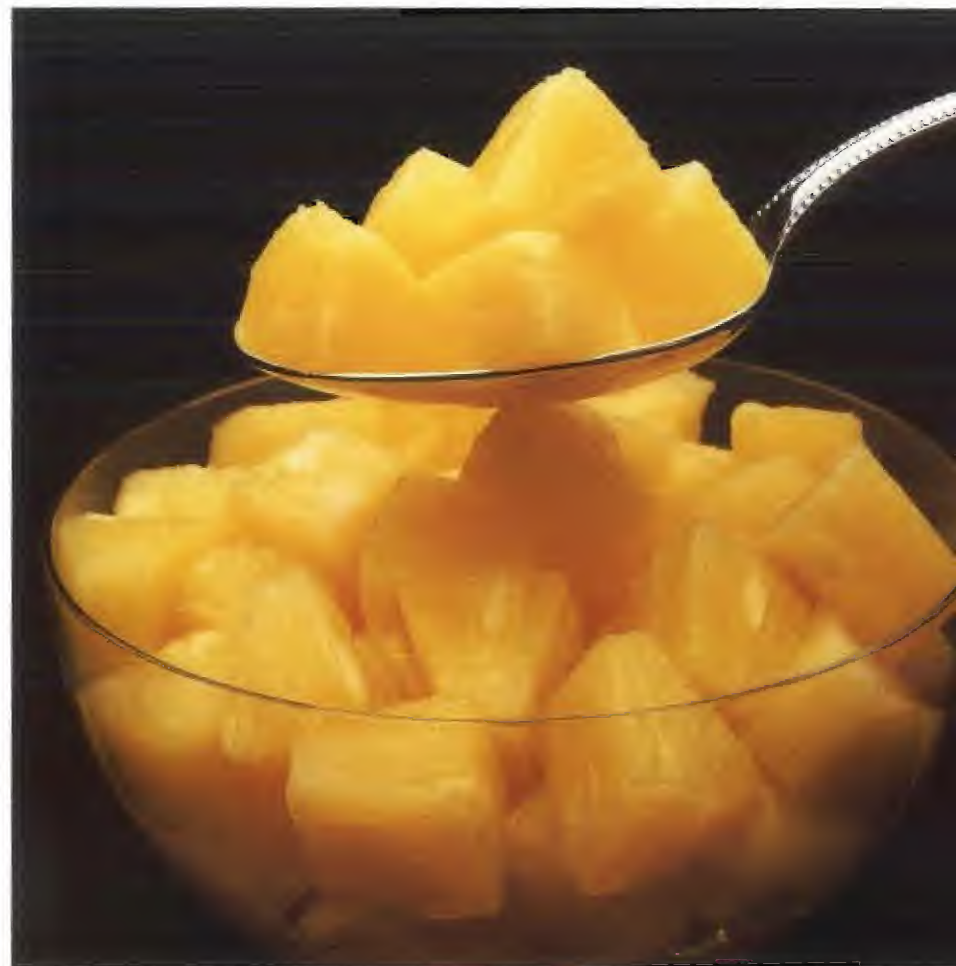
Aylmer and *Del Monte* products have been a familiar part of Canadian life for

more than 100 years. They include canned fruit, vegetables, ketchup, juices, soups, condiments and jams, all known for their fresh taste. Ninety per cent of the materials come from Canadian sources; the processing takes place at eight manufacturing plants located throughout Southern Ontario and Quebec.

Together with *Nabisco Shredded Wheat* and *Shreddies* Cereals, *Fleischmann's* Margarine, *Chips* Baking Chips, and *Royal* Desserts, they add up to

a formidable array of choice, taste, quality and value.

The *Del Monte* and *Aylmer* labels account for 80 per cent of the former Canadian Cannery's business. Last year, *Del Monte* found a new way to sell vegetables. By the dozen. The *Del Monte* Dozen. The most popular varieties of *Del Monte* vegetables were made available in specially-marked cases of 12 — Whole Kernel Corn, Cream Style Corn, Green Beans and Peas.



The market share of *Del Monte* 100% Juices reached an all-time high in 1986. Growth in sales was aided by a buoyant consumer reception for the new *Del Monte* Hawaiian Fruit Juice, an exotic blend of pineapple, tangerine, pear, apricot, lemon and apple juices which complements *Del Monte*'s two other blended fruit juices, Tropical and Caribbean. A second reason for increased market share was expanded distribution of Tropical, Caribbean and Pineapple Juice to the four western provinces, a region which now accounts for more than 20 per cent of *Del Monte*'s cartoned beverage business.

Last year also saw the growth in volume of *Del Monte* Pineapple Spears



and *Del Monte* Pineapple Chunks. These two products, which were launched nationally in 1985, were supported that year and through 1986 with television advertising which received one of the highest consumer recall scores ever recorded in Canada.

An exciting new product was added to the *Aylmer* line in October, 1986. *Aylmer* Tomatoes with Herbs and Spices, specially formulated with a unique blend of Italian herbs and spices, represents the first value-added, differentiated entry into the canned whole tomato category.



There's no debate: the most important way to start the day is with the right kind of breakfast. The Nabisco family of cereals provides a nutritious and tasty beginning for all age groups.

Nabisco is a strong number two in Canada's cereal market, and maintained that position during 1986 in an increasingly competitive market. A fourth core brand, *Raisin Wheats*, was added to *Shreddies*, *Nabisco Shredded Wheat*,



and *100 % Bran* to round out a wholesome get-out-of-bed menu.

Raisin Wheats is the result of a technological breakthrough which combines the wholesome goodness of 100 per cent whole wheat with moist and chewy raisin in every bite-sized biscuit; consumer response to *Raisin Wheats* has been outstanding.

Today's lifestyles increasingly emphasize healthy and convenient foods and the need to save precious time. Nabisco cereals meet all three imperatives, and the Division will continue to build on the brand leadership of these products.

New packaging introduced in 1986 for *Shreddies* and *100 % Bran* added to the appeal of these brands.

This special and enduring Nabisco family of products will be front and centre in the Company's program of increased marketing-media exposure. In today's society, these good-for-you and good-tasting cereals deserve the acclaim. A deep breath of invigorating morning air, a relaxing stretch, a bowl of *Shreddies* — and the world beckons!





The *Chipits* line maintained its market share position in 1986. *Chipits* Baking Chips still leads the industry; *Chipits* Baking Squares, introduced in 1984, and *Chipits* 100 % Pure Cocoa, brought out in 1985, both increased their market shares; and new *Chipits* Jumbo Baking Chips joined the line to meet a consumer need for extra large baking chips.

There was no dislodging Nabisco margarines, both the premium *Fleischmann's* brand and the popular *Blue Bonnet* brand, from their preferred position among Canadian consumers. Increasing concern for healthful eating habits assures the future growth of *Fleischmann's*.

And two new *Royal* desserts, *Royal* Banana Cream and Chocolate Mousse No-Bake Pie Mixes were introduced to provide perfect endings to any good meal.

The Nabisco line of pet snacks, including *Milk-Bone*, *Butcher Bones*, and *Flavour Snacks*, remained number one in Canada and an important member of the Grocery Division.



What comes in the widest variety of shapes, sizes, colours, textures and tastes? The answer, of course, is Nabisco's line of confectionery products, the most delicious as well as the most comprehensive in Canada.

Last year, the Confectionery Division built on the strength of its core brands by introducing a number of line extensions which found instant favour with consumer palates.

Planters fortified its position as the number one snacking nut in Canada and confirmed its commitment to quality in 1986 with a "Freshness Guaranteed" flag conspicuously positioned on the brand's cellophane packaging.

Following on the success of *Ovation* Coffee Sticks, new *Ovation* Almond Sticks received good introductory



response. *Muir's* Collection added *Filbert Clusters* and *Mint Supremes*, while initial sales for the down-sized *Pot of Gold* and *Petit Petit* White and Dark reflected their appeal to price-sensitive gift-givers.

In what was a very difficult market for candy bars, *Oh Henry!* remained the number two selling bar in the country. *Bonkers!*, which added a new chocolate flavour in 1986, was still the number one choice of the public in the chewy candy category.

Consumption of *Life Savers* increased over the previous year, boosted by the

"Hole Lot of Flavour" advertising campaign and the introduction of a new Banana Split flavour. *Breath Savers* Candy Mints were reformulated with NutraSweet® and relaunched in four flavours.



In the past year, Nabisco increased its industry leading position of the away-from-home coffee and snack markets with increased sales of existing brands and the introduction of a taste-pleasing group of products.

One of the successful new foodservice lines was *Imperial Choice* coffee brought

out by Nabisco's three roasting companies — Dickson's Food Services Ltd. of Vancouver, Melrose Coffee Company of Winnipeg, and Club Coffee Companies of Toronto.

Eight new gourmet and flavoured *Imperial Choice* coffees found a comfortable niche in the upscale retail and restaurant markets. *Imperial Choice* iced teas, in tins and in single-serve packs, and *Imperial Choice* Hot Chocolate, were also given an exceptional welcome.

Nabisco Brands Food Service Company significantly increased its national sales. New branded products such as *Dad's* Chunky Chocolate Chip cookies, *David* Maple Leaf cookies, and *Oreo* bulk crumbs joined such established



brands as *Premium Plus* crackers and *Shreddies* cereal in our foodservice customers' establishments.

Reid Milling's soft wheat mill in Mississauga, the largest producer in Canada, ran at capacity through 1986, and expects to duplicate this performance in 1987. Reid produces 16 different wheat

flour blends for Nabisco, for other food processors in Ontario and Quebec, and for sale to export markets. It also produces wheat cereal bran and wheat germ for sale in Canada and the United States.



Directors and Officers

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Power Financial Corporation

Walter G. Dunnington, Jr.
New York, New York
Senior Vice President &
Deputy General Counsel
RJR Nabisco, Inc.

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New York, New York
Chairman
Burns Fry and Timmins Inc.
Chairman
Nabisco Brands Ltd

Gordon M. Farquharson, Q.C.
Toronto, Ontario
Partner
Lang Michener Lash Johnston
Barristers & Solicitors

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Toronto, Ontario
President &
Chief Operating Officer
Nabisco Brands Ltd

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St. Laurent, Quebec
Chairman of the Board,
President &
Chief Executive Officer
Guillevin International Inc.

John London
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Managing Director
N.M. Rothschild & Sons Ltd.

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Toronto, Ontario
Vice Chairman &
Chief Executive Officer
Nabisco Brands Ltd

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Toronto, Ontario
Chairman
Black & McDonald Limited

W. Earle McLaughlin
Montreal, Quebec
Former Chairman of the Board
Royal Bank of Canada

C. Richard Sharpe
Toronto, Ontario
Chairman &
Chief Executive Officer
Sears Canada Inc.

Kenneth D. Taylor
New York, New York
Senior Vice President,
Government Affairs
Nabisco Brands, Inc.

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Chairman
Gordon M. Farquharson, Q.C.
Jeannine Guillevin-Wood
H. John McDonald
W. Earle McLaughlin

Compensation & Human Resources Committee

C. Richard Sharpe
Chairman
H. John McDonald
Jeannine Guillevin-Wood
Kenneth D. Taylor

Executive Committee

John R. MacDonald
Chairman
Martin F.C. Emmett
R. Edward Glover
H. John McDonald
W. Earle McLaughlin
C. Richard Sharpe

Officers

Martin F. C. Emmett
Chairman of the Board

John R. MacDonald
Vice Chairman &
Chief Executive Officer

R. Edward Glover
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Senior Vice President,
Finance

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Senior Vice President, and
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Industrial Products Division

Raymond J. Verdon
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President,
Christie, Brown & Co.

Bruce J. Wood
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President,
Confectionery Division

Ronald A. Adlam
Vice President, Planning

Simon Gulden
Vice President,
General Counsel & Secretary

Brian C. Koenig
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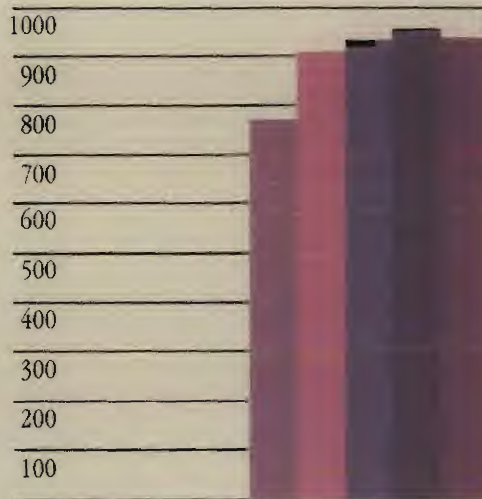
M. Robert Langille
Vice President & Comptroller

Emerson A. Mascoll
Vice President,
Corporate Affairs

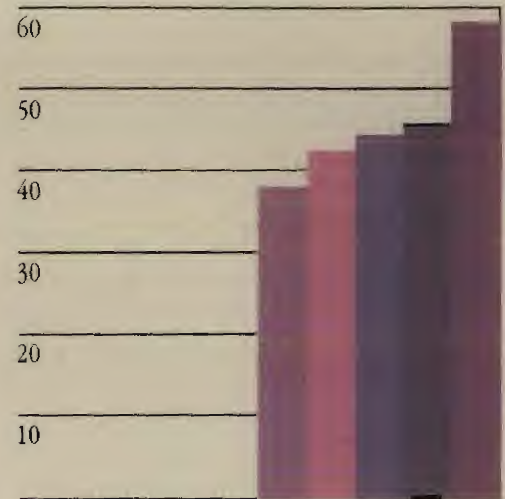
Frederick C. Z. Silk
Vice President & Treasurer

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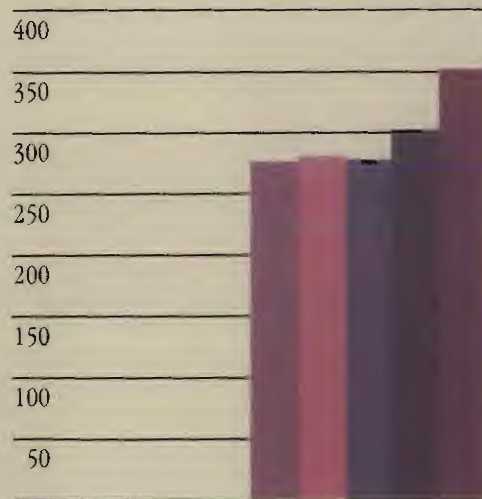
5 Year Financial Review



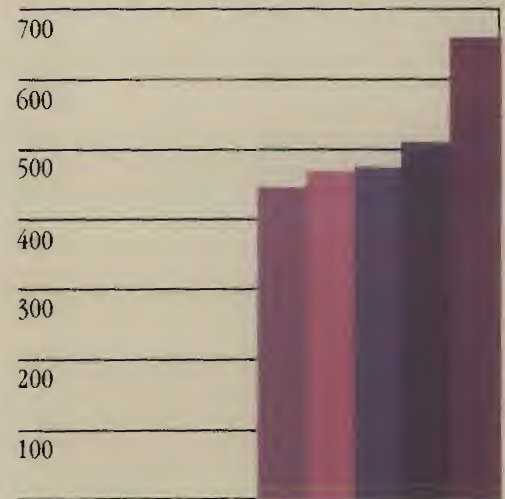
NET SALES
(millions of dollars)



NET INCOME
(millions of dollars)

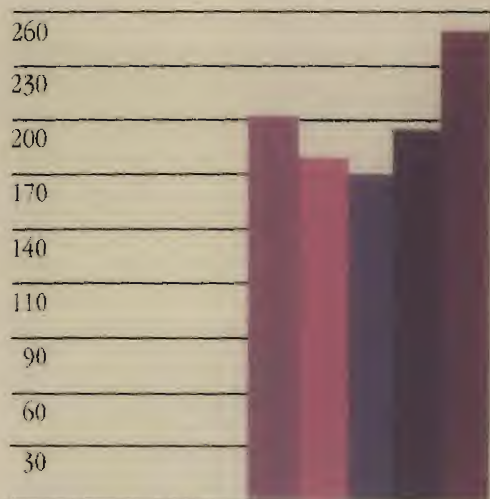


SHAREHOLDERS' EQUITY
(millions of dollars)

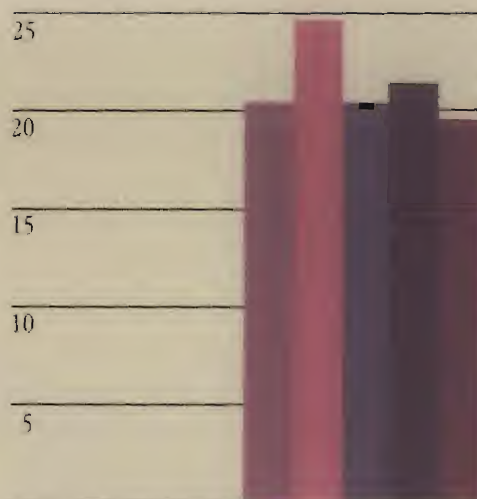


TOTAL ASSETS
(millions of dollars)

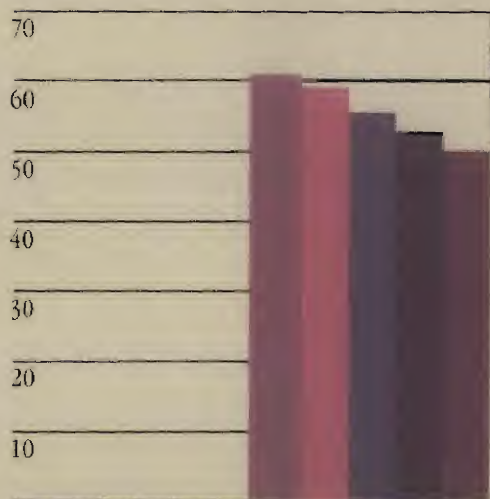




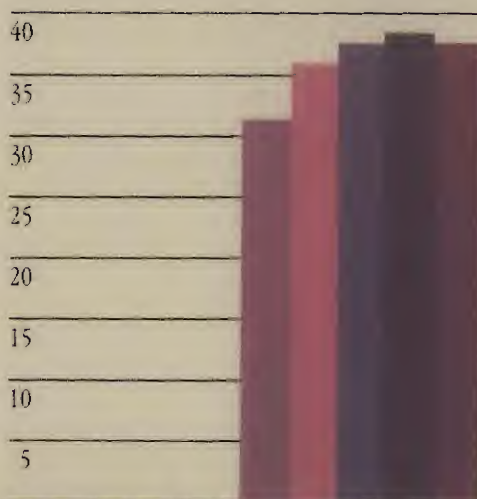
WORKING CAPITAL
(millions of dollars)



CAPITAL INVESTMENT
(millions of dollars)



TOTAL DEBT
(millions of dollars)



PER CAPITA SALES
(dollars)

Consolidated Statement of Income and Retained Earnings

Nabisco Brands Ltd
for the year ended
December 31, 1986
(in thousands of dollars
except per share amounts)

	1986	1985
NET SALES	\$941 655	\$961 332
Cost of products sold	695 190	702 234
GROSS MARGIN	246 465	259 098
Selling, administrative and other expenses, including interest on long-term debt of \$5,855 in 1986 and \$6,035 in 1985	186 690	178 823
INCOME BEFORE TAXES AND EXTRAORDINARY ITEMS	59 775	80 275
Provision for taxes on income (Note 11)	27 300	33 810
INCOME BEFORE EXTRAORDINARY ITEMS	32 475	46 465
Extraordinary items (Note 9)	26 035	(880)
NET INCOME	58 510	45 585
RETAINED EARNINGS, beginning of year	301 215	271 630
	359 725	317 215
Dividends declared	16 000	16 000
RETAINED EARNINGS, end of year	\$343 725	\$301 215
Earnings per share:		
Income before extraordinary items	\$ 1.62	\$ 2.32
Net Income	\$ 2.93	\$ 2.28

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Nabisco Brands Ltd as at December 31, 1986 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The financial statements for the preceding year were examined by other chartered accountants.

January 19, 1987

Thorne Ernst & Whinney

Consolidated Statement of Changes in Financial Position

	1986	1985
OPERATING ACTIVITIES		
Income before extraordinary items	\$ 32 475	\$ 46 465
Depreciation and amortization	16 458	15 033
Deferred income taxes	4 109	(765)
Change in working capital	(16 896)	5 005
Net funds from operating activities	36 146	65 738
FINANCING ACTIVITIES		
Debt repayment	(3 495)	(3 470)
Inter-company notes payable (Note 2)	129 669	—
Inter-company notes receivable (Note 9)	(11 045)	—
Net funds from financing activities	115 129	(3 470)
INVESTMENT ACTIVITIES		
Fixed assets		
Additions	(19 548)	(21 894)
Proceeds from disposals	514	4 911
	(19 034)	(16 983)
Acquisition (Note 2)	(130 479)	(2 863)
Net funds used for investment activities	(149 513)	(19 846)
DIVESTITURES AND PLANT CLOSURES (Notes 9, 12)	132 860	—
DIVIDENDS PAID	(16 000)	(16 000)
NET GENERATION OF FUNDS	118 622	26 422
FUNDS (cash and short-term investments)		
- beginning of year	52 381	25 959
- end of year	\$171 003	\$ 52 381
CHANGES IN WORKING CAPITAL		
Accounts receivable	\$ 10 977	\$ (7 265)
Inventories and prepaid expenses	6 562	6 701
Accounts payable and accrued expenses	(22 808)	(140)
Due from/to parent and affiliates	(4 740)	(4 248)
Income and other taxes recoverable	(6 887)	9 957
(Increase) Decrease for the year	\$(16 896)	\$ 5 005

Nabisco Brands Ltd
for the year ended
December 31, 1986
(in thousands of dollars)

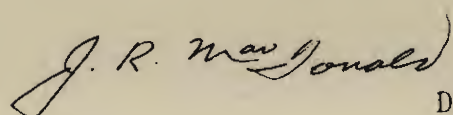
Consolidated Balance Sheet

Nabisco Brands Ltd
December 31, 1986
(in thousands of dollars)

ASSETS	<u>1986</u>	<u>1985</u>
CURRENT ASSETS:		
Cash and short-term investments	\$171 003	\$ 52 381
Accounts receivable	80 723	89 423
Income taxes recoverable	9 603	—
Due from parent	—	3 024
Inventories (Note 3)	188 426	162 137
Prepaid expenses and other assets	10 717	9 304
Assets held for sale (Note 12)	1 475	—
Total current assets	<u>461 947</u>	<u>316 269</u>
 FIXED ASSETS (Note 4)	 151 146	 157 701
 GOODWILL AND OTHER INTANGIBLES	 <u>45 709</u>	 <u>39 320</u>
	<u>\$658 802</u>	<u>\$513 290</u>

Approved on behalf of the Board:

 Director

 Director

LIABILITIES	1986	1985
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$126 207	\$106 773
Due to parent and affiliates	77 690	—
Income taxes payable	—	1 845
Other taxes payable	3 566	5 744
Dividends payable	4 000	4 000
Current maturities of long-term debt (Note 5)	3 173	3 494
Total current liabilities	<u>214 636</u>	<u>121 856</u>
DUE TO PARENT AND AFFILIATES (Note 2)	14 149	—
LONG-TERM LIABILITIES (Note 5)	45 246	49 128
DEFERRED INCOME TAXES	34 635	34 680
SHAREHOLDERS' EQUITY:		
Capital stock (Note 6)	6 411	6 411
Retained earnings	<u>343 725</u>	<u>301 215</u>
	<u>350 136</u>	<u>307 626</u>
	<u>\$658 802</u>	<u>\$513 290</u>

Notes to Consolidated Financial Statements

Nabisco Brands Ltd
for the year ended
December 31, 1986

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) The consolidated financial statements include the accounts of the Company and all subsidiary companies and are prepared in accordance with generally accepted accounting principles as formalized by the recommendations of the Canadian Institute of Chartered Accountants.
- b) Short-term investments are carried at cost which approximates market value.
- c) Finished goods inventories and work in process are valued at the lower of cost and net realizable value. Raw materials and packaging supplies are valued at the lower of cost and replacement cost. Cost is determined principally on an average or first-in, first-out basis.
- d) Property, plant and equipment are recorded at cost. Assets under capital leases are recorded at the present value of future minimum rental payments. For financial reporting purposes, depreciation and amortization expense is provided on a straight-line basis using estimated useful lives of ten to sixty years for buildings and two to forty years for machinery and equipment.
- e) Goodwill acquired after September, 1970 is being amortized over periods not to exceed forty years. Goodwill acquired prior to October, 1970 of \$10,375,272 is not being amortized. Other intangibles, principally trade marks, are amortized over forty years.

2. ACQUISITIONS

On November 28, 1986 the Company acquired certain net operating assets and trade marks of Canadian Cannery Limited, a subsidiary of RJR Nabisco, Inc., the Company's ultimate parent. The acquisition has been accounted for using the purchase method. Details of the transaction are as follows:

	(in thousands of dollars)
Net Assets Acquired at Assigned Values:	
Working Capital	\$ 75 894
Fixed Assets	30 102
Goodwill	24 483
	<u>\$130 479</u>
Consideration Given:	
Cash, including expenses relating to the acquisition	\$ 810
Royalties payable through 1992 in respect of trade marks acquired, discounted to present value at 10 %	10 000
Notes Payable, due February 26, 1987 and bearing interest at 8.25 %	113 069
Note Payable, due in ten annual installments starting November 28, 1987 and bearing interest at 10.5 %	6 600
	<u>\$130 479</u>

On August 2, 1985, the Company acquired certain assets and the business of Anthos Coffee Company Limited for cash consideration of \$2,863,000, consisting of \$1,900,000 for goodwill and \$963,000 for other assets.

3. INVENTORIES	(in thousands of dollars)	
	1986	1985
Finished goods	\$121 823	\$ 67 063
Work in process (principally maturing spirits in 1985)	3 789	36 963
Raw materials and packaging supplies	62 814	58 111
	<u>\$188 426</u>	<u>\$162 137</u>
4. FIXED ASSETS	(in thousands of dollars)	
	1986	1985
Land	\$ 4 196	\$ 4 953
Buildings	53 050	76 928
Machinery and equipment	188 620	202 106
Assets under capital leases	5 521	5 705
	<u>251 387</u>	<u>289 692</u>
Less — Accumulated depreciation	<u>100 241</u>	<u>131 991</u>
	<u>\$151 146</u>	<u>\$157 701</u>
5. LONG-TERM LIABILITIES	(in thousands of dollars)	
	1986	1985
14% Sinking fund debentures due March 15, 2000, guaranteed by Nabisco Brands, Inc. with sinking fund payments of \$1,725,000 annually	\$ 24 825	\$ 26 550
9.75% Sinking fund debentures due December 15, 1997, guaranteed by Nabisco Brands, Inc. with sinking fund payments of \$1,000,000 annually	19 000	20 000
7.5% Secured debentures	—	285
Other, including mortgages on certain properties carrying interest rates ranging from 7% - 11 ¾ %	1 375	2 207
Capital lease obligations	3 219	3 580
	<u>48 419</u>	<u>52 622</u>
Less — current maturities	<u>3 173</u>	<u>3 494</u>
	<u>\$ 45 246</u>	<u>\$ 49 128</u>

Notes to Consolidated Financial Statements

Future minimum lease payments under capital leases are as follows:

	(in thousands of dollars)
1987	\$ 609
1988	609
1989	592
1990	500
1991	500
1992 - 1995	<u>1 793</u>
	4 603
Less interest @ 9.8 %	<u>1 384</u>
	<u>\$ 3 219</u>

	(in thousands of dollars)	
6. CAPITAL STOCK	<u>1986</u>	<u>1985</u>
a) Class A Special shares without nominal or par value.		
Authorized — unlimited number of voting Class A shares, convertible to common on a share for share basis; but otherwise participating equally with the common shares;		
Issued and fully paid 4,000,000 shares	\$ 10	\$ 10
b) Common shares without nominal or par value.		
Authorized — unlimited number of voting shares;		
Issued and fully paid 16,000,000 shares	<u>6 401</u>	<u>6 401</u>
	<u>\$ 6 411</u>	<u>\$ 6 411</u>

7. TRANSACTIONS WITH RELATED PARTIES

Transactions with the parent and affiliated companies are summarized below:

	(in thousands of dollars)	
	<u>1986</u>	<u>1985</u>
Sales	\$ 22 110	\$ 12 660
Purchases	3 242	6 169
Management and other charges, net	3 653	824
Royalties paid	3 162	3 018

PENSION PLANS

The Company and its subsidiaries contribute to several pension plans covering substantially all eligible employees. The plans are, for the most part, contributory, defined benefit plans. The total pension expense in 1986 was \$7,135,000 (\$6,898,000 in 1985), which included amortization of unfunded actuarial liabilities which are being funded and expensed for the most part over periods of 15 years or less.

The actuarial present value of accumulated plan benefits as of December 31, 1985, the date of the most recent valuation, and net assets available for benefits are summarized below.

(in thousands of dollars)

	1985
Actuarial present value of accumulated plan benefits:	
Vested	\$ 93 071
Non Vested	8 624
Total	<u>\$101 695</u>
Net assets available for benefits (Market Value)	<u>\$154 671</u>

The apparent surplus above is required to meet the Company's funding policy with respect to its pension plans which recognizes future benefit increases expected to result from future increases in members' salaries; whereas the actuarial present value of accumulated plan benefits shown above represents the pension benefits earned by employees as of December 31, 1985 based on eligible service to date and current salaries. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.5%.

EXTRAORDINARY ITEMS

On July 2, 1986 the Company sold fixed assets, inventories and trade marks of the Canadian Yeast operations of the Fleischmann Division for net cash proceeds of \$39,000,000. The gain on the sale amounted to \$23,213,000.

On December 31, 1986 the Company sold its investment in a wholly-owned subsidiary, McGuinness Distillers Limited, to Heublein Inc. a subsidiary of RJR Nabisco, Inc. for cash proceeds of \$65,000,000. The gain on the sale amounted to \$17,997,000.

On November 24, 1986 the Company sold the trade marks of The Hervin Company, a wholly-owned subsidiary located in the U.S., to an affiliate, Nabisco, Inc., for \$11,045,000 by way of a promissory note due November 15, 1987 and bearing interest at 6.16%. The gain on the sale amounted to \$10,210,000.

As a result of the acquisition of Nabisco Brands, Inc., the parent company, by RJR Nabisco, Inc. (formerly R.J. Reynolds Industries, Inc.), the Company has embarked on a major program to restructure its core businesses. The restructuring has involved divestiture of certain of its non-

Notes to Consolidated Financial Statements

core businesses, re-alignment of its operating divisions including the integration of its two biscuit companies into one biscuit division and integration of the Del Monte, Aylmer and Foods Division into one Grocery Division. As part of these activities, a major study has been implemented to eliminate redundant overhead expenses. The provision for costs to perform the study and implement the overhead reduction programs is \$15,156,000.

During the year the Company made the decision to shut down marginal manufacturing facilities of the Foods, Confectionery and Wines & Spirits Divisions. Provision for one-time plant closure costs relating to asset write downs, severance and relocation expenses is \$10,429,000.

With respect to the items above, the Company has provided for income taxes recoverable of \$10,565,000 with respect to the provision for costs and income taxes payable of \$10,365,000 with respect to the gains on the sales.

The world-wide key employee performance share plan of Nabisco Brands, Inc., the parent company, provided long-term incentive awards to senior executives based on market performance of Nabisco Brands, Inc. shares. As provided in the Merger Agreement dated June 1, 1985, between RJR Nabisco, Inc. and Nabisco Brands, Inc. the plan was concluded and provision was made for early distribution, on a prorated basis to the end of 1985, of the incentive award for the three uncompleted performance periods. In 1985 the Company expensed \$880,000, net of income taxes of \$920,000, related to the early distribution.

10. OPERATING LEASE COMMITMENTS

The future minimum lease payments are as follows:	(in thousands of dollars)
1987	\$ 4 144
1988	3 838
1989	3 624
1990	3 717
1991	3 739
1992 and thereafter	12 099
	<u>\$31 161</u>

11. INCOME TAXES

A reconciliation of the statutory income tax rate to the Company's effective income tax rate is as follows:

	1986	1985
Statutory rate in Canada (federal and provincial)	51.34 %	49.36 %
Reduction applicable to manufacturing and processing profits	(5.33)	(4.18)
Reduction resulting from inventory allowance	(.47)	(2.73)
Other, net	.13	(0.33)
	<u>45.67 %</u>	<u>42.12 %</u>

12. SUBSEQUENT EVENTS

Subsequent to the year-end the Company completed the sale of certain assets and trade marks of the Canadian Pet Foods operations of the Foods Division for cash of \$54,815,000. The transaction which is subject to adjustments, will result in an approximate gain of \$21,600,000, net of income taxes of \$9,850,000.

On November 26, 1986 the Company and Nabisco Brands, Inc., signed an agreement with Alpo Petfoods, Inc. for the sale of the business of The Hervin Company. The agreement included the trade marks which were previously sold to Nabisco, Inc. for \$11,045,000 (see note 9) and trade receivables and inventories for approximately \$4,900,000. Completion of the transaction requires the approval of the U.S. Federal Trade Commission. The Company does not anticipate any loss on the sale of the trade receivables and inventory or on the disposition of fixed assets which were not included in the sale.

The net assets of the Canadian Pet Foods operations and The Hervin Company held for sale are separately disclosed in the balance sheet at December 31, 1986 and consist of the following:

	(in thousands of dollars)
Working Capital	\$ 12 788
Fixed Assets	11 913
Goodwill & Trade marks	6 774
	<u>\$ 31 475</u>
Cash deposit received	30 000
Assets held for sale net of deposit	<u>\$ 1 475</u>

13. BUSINESS SEGMENTS

The Company is engaged in two main lines of business; Consumer Products and Food Ingredients Products. Consumer Products includes packaged foods, confectionery products, pet foods and wines and spirits products which are manufactured and/or sold for the most part under advertised brand names through grocery stores, supermarkets, confectionery stores and Provincial Liquor Board outlets. Food Ingredients Products includes mainly coffee and oil-based products sold to hotels and restaurants, and flour, yeast and other baking ingredients sold to bakeries. The following schedule presents information about the Company's business segments:

Notes to Consolidated Financial Statements

	(in thousands of dollars)	
	1986	1985
Segment sales:		
Consumer Products	\$761 953	\$801 506
Food Ingredients Products	179 702	159 826
	<u>\$941 655</u>	<u>\$961 332</u>
Segment operating profit:		
Consumer Products	\$ 65 459	\$ 85 149
Food Ingredients Products	13 005	15 997
	<u>\$ 78 464</u>	<u>\$101 146</u>
General corporate expense, net	\$ 16 370	\$ 16 548
Interest expense, net	2 319	4 323
Income taxes	27 300	33 810
	<u>\$ 45 989</u>	<u>\$ 54 681</u>
Income before extraordinary items	\$ 32 475	\$ 46 465
Extraordinary items	26 035	(880)
Net Income	<u>\$ 58 510</u>	<u>\$ 45 585</u>
Identifiable assets:		
Consumer Products	\$547 870	\$424 380
Food Ingredients Products	110 932	88 910
	<u>\$658 802</u>	<u>\$513 290</u>
Capital expenditures:		
Consumer Products	\$ 13 243	\$ 16 990
Food Ingredients Products	6 305	4 904
Depreciation and amortization:		
Consumer Products	13 036	12 218
Food Ingredients Products	3 422	2 815

14. RECLASSIFICATIONS

Certain of the prior year's accounts have been reclassified to conform with the presentation adopted in the current year.

Products

BISCUITS

Christie Cookies
Apple Newtons
Arrowroot
Barnum's Animal Crackers
Chevy Chips Abby!
Chips Abby!
Chocolicious
Coffee Breaks
Date Newtons
Favourites
Fig Newtons
Fudge-o
Fumilla
Midget Snaps
Miniatures
Montclair Chocolate Graham's
Mr. Christie's Crisp 'N Chewy
Neapolitan Wafers
Oreo
Oreo Double Stuf
Oreo Mint Creme
Pantry
Pirate
Raspberry Newtons
Social Tea
Sullana
Tea Treats
Vanilla Wafers

Christie Crackers
Bacon Dippers
Better Blue
Better Cheddars
Better Nacho
Better Swiss
Cheese Bits
Cheese & Green Onion
Cheese Nips
Cheese Ritz
Cheese Tid Bits
Escort
French Onion Thins
Ground Wheat Thins
Honey Maid Graham Wafers
Honey Maid Chocolate
Graham Crumbs
Honey Maid Graham Crumbs
Hovis*
Meal Mates
Milk Lunch
Old Fashioned
Old Fashioned Fibre
Pizza Thins
Premium Plus
Ritz
Sociables
Sour Cream & Chives
Swiss Cheese
Triscuit
Vegetable Thins
Wheatworth
Wheat Thins

Christie Snacks & Cones
Bits & Bites
Cheddar Flings
Cheddars
Mini Chips
Mister Salty Pretzels
Cadet & Comet Cones

Dad's Cookies

All Butler Shortbread
Apple 'N Oatmeal
Big Cookie
Celonos
Chips in Chocolate
Chocolate Chip
Chunky Chocolate Chip
Chunky Fudge
Coated Variety
Coconut
Cremes of Crop
Date 'N Oatmeal
Family Pack
Goodie Rings
Mallows
Oatmeal
Oatmeal Chocolate Chip
Original Oatmeal
Raspberry 'N Oatmeal
Variety Pack

David Cookies
Assorted Mallows
Assorted Wafers
Chunks O' Chocolate
Coco au Lait
Coco Sandwich
Fig Bars
Ginger Snaps
Jelly Mallows
Maple Leaf
Petit Beurle
Petit Graham
Princess
Rainbow
Social Tea
Strawberry Tart
Super Graham
Vanilla Wafers

Harnois Products

Gâteaux Royal
Papineau
Winsor
Peek Freans Biscuits
Arrowroot
Assorted Creme
Bourbon Creme
Celebration
Chocolate Chip
Dark Chocolate Digestive
Digestive
Family Assortment
Family Digestive
Fruit Creme
Fruit Shortcake
Ginger Crisp
Ginger Crunch
Home Assorted
Milk Chocolate Digestive
Nice
Orange Chocolate
P.F. Assorted
Shortcake

Crackers
Cream Crackers
Biscuits For Cheese
Water Crackers

CONFECTIONERY

Lowney Candy Bars
Caravan
Cherry Blossom
Eat More
Glosette Peanuts
Glosette Raisins
Junior Mints
Nut Milk
Oh Henry!
Peanut Butter Cups

Hard Roll Candy
Beech Nut Cough Drops
Breath Savers
Life Savers
Life Savers Lollipops
Bubble Yum
Care Free

Chewy Candy
Bonkers!

Nuts
Beaver
Fine Tree
Planters
Planters Unsalted
Planters Honey Roast

Moirs Boxed Chocolates
All Nuts
Almond Bark/Chocolate Bark
Almondillos
Cherries
Chocolate Covered Hazelnuts/
Almonds
Half & Half
Moirs Collection
Ovation
Petit Petit
Pot of Gold
Selection
Valentine Hearts

Other Confectionery
Angelus Marshmallows*
Basset's Licorice*
Bridge Mixture
Campfire Marshmallows*
Chippopotilly Snacks
Easter Eggs
Tradition

GROCERY

Baking Aids
Chipits Baking Chips
Chipits Baking Squares
Chipits Cocoa Powder
Gillett's Cream of Tartar
Magic Baking Powder

Desserts
Royal Instant Puddings
Royal No-Bake Pie Mixes

Margarines
Blue Bonnet
Fleischmann's

Nabisco Cereals

Honey Bran Crunchies
Honey Bran Crunchies & Fruit
100% Bran
Cream of Wheat
Raisin Wheat
Rice Flakes
Shredded Wheat
Shreddies
Shreddies & Raisins
Spoon Size Shredded Wheat
Team

Fruits & Beverages

Aylmer Canned Fruit
Aylmer Diet Deluxe Fruit
Aylmer Diet Deluxe Pudding Cups
Del Monte Canned Fruits
Del Monte Canned Pineapple
Del Monte Pudding Cups
Del Monte Fruit Cups
Coronation Cereals
Aylmer Canned Tomato Juice
Del Monte Tetra Pack 100% Juices
Del Monte Canned and Bottled Juices/
Nectars & Drinks
Haitation Punch Canned Drinks and Crystals

Soups & Vegetables

Aylmer Soups
Aylmer Baked Beans
Aylmer Canned Vegetables
Aylmer Canned Tomatoes
Del Monte Canned Vegetables
Del Monte Canned Tomatoes
Lyn Valley Canned Vegetables

Condiments

Aylmer Jams & Jellies
Aylmer Ketchup
Aylmer Pickles
Coronation Pickles, Condiments
Chun King Oriental Foods

Other

Egg Beaters Egg Substitute
Planters Peanut Oil

Pet Snacks
Butcher Bones
Flavor Snacks
Milk-Bone

INDUSTRIAL PRODUCTS

Reid Flour

Food Service Coffees

Anthos
Becharas
Chase & Sanborn*
Club
Dickson's
Eze Brew
Imperial Choice
Mellocup
Melrose
Mojabo

* Manufactured under licence

